APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

93-1188

U.S. PHILIPS CORPORATION,
Plaintiff/Counterdefendant-Appellee,

and

NORTH AMERICAN PHILIPS CORPORATION and
N.V. PHILIPS GLOEILAMPENFABRIEKEN,
Counterdefendants-Appellees,

v.

SEARS ROEBUCK & CO.,
Defendant/Counterclaimant-Appellant,

and

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Defendant/Counterplaintiff/Appellant.

DECIDED: May 10, 1995

Before NEWMAN, *Circuit Judge,* FRIEDMAN, *Senior Circuit Judge,* and MAYER, *Circuit Judge.*

Opinion for the court filed by Judge NEWMAN. Dissenting opinion as to Part I filed by Senior Judge FRIEDMAN.

NEWMAN, *Circuit Judge.*

We answer two questions certified for interlocutory appeal by the United States District Court for the Northern District of Illinois, in the course of litigation involving U.S. Philips Corporation, North American Philips Corporation, and N.V. Philips Gloeilampenfabrieken (together "Philips"); Sears, Roebuck & Company; and Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi").[1] These questions are directed to various issues of estoppel, and also concern the vacatur by the Federal Circuit of a district court decision in related litigation. We affirm the rulings here certified.

BACKGROUND

The related litigation started in 1984 in the United States District Court for the Southern District of Florida. The parties were Philips, the Windmere Corporation, and Izumi. Philips complained of patent infringement and unfair competition, and Izumi and Windmere raised defenses and counterclaims of patent misuse and antitrust violations. The Florida case was tried in 1986 as to all issues, Windmere and Izumi successfully arguing that it was incorrect and inefficient to separate the patent aspects from the antitrust and misuse counterclaims. The decision was appealed to the Federal Circuit. In accordance with this court's decision, *U.S. Philips Corp. v. Windmere Corp.*, 861 F.2d 695, 8 USPQ2d 1885 (Fed. Cir. 1988), *cert. denied*, 490 U.S. 1068 (1989), and the Florida district court's order, the antitrust counterclaims and the unfair competition count were retried in Florida in 1990.

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[1] *U.S. Philips Corp. v. Sears Roebuck & Co.*, No. 85-C-5366 (N.D. Ill. December 1, 1987 (opinion), December 22, 1987 (recons. denied), May 19, 1989 (recons. denied with opinion), May 17, 1990 (recons. denied), October 13, 1992 (summary judgment entered on October 5, 1990 vacated and recons. denied with opinion), and November 6, 1992 (order certifying questions for immediate appeal)).

Philips and Windmere, but not Izumi, were parties to the retrial, which was decided in favor of Windmere. Philips appealed to the Federal Circuit. While the appeal was pending, Philips and Windmere reached a settlement. On their joint motion the Federal Circuit dismissed the appeal and vacated the Florida district court's judgment. *U.S. Philips Corp. v. Windmere Corp.*, 971 F.2d 728, 23 USPQ2d 1709 (Fed. Cir. 1992). The Federal Circuit denied Izumi's petition to intervene, on the ground that Izumi did not have standing to protest the vacatur of a decision to which Izumi was not a party. *Id.* at 730-31, 23 USPQ2d at 1710-11. The Supreme Court dismissed Izumi's petition for certiorari, *Izumi Seimitsu Kogyo Kabushiki Kaisha v. U.S. Philips Corp.*, 114 S. Ct. 425 (1993), holding that Izumi did not have standing to seek review of the question of vacatur since Izumi was not a party.

Meanwhile, in June 1985 Philips had filed suit against Sears, Roebuck & Co. and Izumi in the United States District Court for the Northern District of Illinois, asserting substantially the same patent infringement and unfair competition claims that were asserted in the suit Philips filed in 1984 in Florida against Windmere and Izumi. The patent was the same in the Illinois and the Florida cases, plus a design patent in the Illinois action. The accused product was the same Izumi-manufactured rotary shaver, which was sold by Windmere under the "Ronson" trademark and by Sears, Roebuck under the "Sears" trademark. In the Illinois action Izumi pled several antitrust counterclaims on the same grounds as were pled by Windmere in Florida; that is, that Philips violated the antitrust laws in its competition with Windmere, and that the litigation against Windmere and Izumi in Florida, and against Izumi in Japan, was sham.

The Florida case was tried in 1986 as to all issues. In 1987 the Illinois district court dismissed Izumi's antitrust counterclaims, holding that these counterclaims were

mature at the time of the Florida litigation to which Izumi was a party, were litigated therein, and were compulsory to Izumi in the Florida action. After the Federal Ciricuit in 1988 required retrial of the antitrust counterclaims in Florida, the Illinois district court instructed Izumi, who had requested reconsideration of the dismissal, to include its antitrust counterclaims in the retrial. The Illinois court stated that Izumi "should direct its request to the Florida District Court where the retrial of the original cause is scheduled." *U.S. Philips Corp. v. Sears Roebuck & Co.*, No. 85 C 5366, slip op. at 3 (N.D. Ill. May 19, 1989). Izumi did not direct a request to the Florida district court, despite this instruction. Thus Izumi was not a party to the 1990 retrial of the antitrust counterclaims in Florida, although Izumi reportedly continued as indemnitor to Windmere, *Philips v. Windmere*, 971 F.2d at 730, 23 USPQ2d at 1710, and Izumi's president testified concerning the unfair competition and antitrust claims. Declaration of William Androlla, counsel to Izumi, of record in *U.S. Philips Corp. v. Windmere Corp.*, 971 F.2d 728, 23 USPQ2d 1709 (Fed. Cir. 1992).

I

THE ANTITRUST COUNTERCLAIMS

Izumi now seeks to try, in the Illinois action, the same antitrust counterclaims that were tried in the Florida action, stating that it has the right to do so. The Illinois court did not agree, and entered an interlocutory order pursuant to 28 U.S.C. § 1292(b). The first question is as follows:

> 1. [W]hether Izumi is barred from pursuing such antitrust counterclaims on the basis that such counterclaims were compulsory counterclaims in a previously filed action of *U.S. Philips Company et al. v. Windmere Corp. et al.* which could not be asserted in this action, and whether Izumi has standing to raise these particular antitrust counterclaims.

A

The antitrust counterclaims pled by Izumi in the Illinois suit include the same antitrust issues that were pled and fully litigated in the Florida action to which Izumi and Windmere were parties until the retrial. In both the Illinois and the Florida actions the principal antitrust claims were (1) predatory pricing by Philips in competition with Windmere, (2) Philips' purchase of the Schick trademark in 1981, whereby it was not available to Windmere, and (3) sham patent litigation by Philips in Florida and in Japan.

It is not controverted that all of these antitrust counterclaims were "ripe" throughout the period of the Florida action, for they were the same claims being litigated in that action. The Illinois court at least twice directed Izumi to participate in the Florida antitrust litigation. Izumi refrained from doing so, despite the reiterated directive from the Illinois court when the antitrust issues were to be retried in Florida. Thus the Illinois court held that these counterclaims were compulsory to Izumi in Florida.

Izumi argues that its antitrust counterclaims were not "compulsory" in terms of Fed. R. Civ. P. 13(a),[2] and therefore that it has the absolute right to choose when and where to litigate them. In this case, however, the

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[2] Rule 13(a) provides in part:

> A pleading shall state as a counterclaim any claim which at the time of serving the pleading the pleader has against any opposing party, if it arises out of the transaction or occurrence that is the subject matter of the opposing party's claim and does not require for its adjudication the presence of third parties of whom the court cannot acquire jurisdiction.

The purpose of Rule 13(a) is "to prevent multiplicity of actions and to achieve resolution in a single lawsuit of all disputes arising out of common matters". *Warshawsky & Co. v. Arcata Nat'l Corp.*, 552 F.2d 1257, 1261 (7th Cir. 1977); 6 Charles A. Wright et al., *Federal Practice and Procedure* § 1409, at 46 (2d ed. 1990).

issue is not simply whether Izumi's antitrust counterclaims were "compulsory" in the technical definition of this term, but whether they were required to be brought by Izumi on the particular facts of this case, wherein they were already being fully litigated in a suit to which Izumi was present as a party, then as a witness, and as indemnitor. It is not irrelevant that the Illinois district court instructed Izumi to participate in the litigation, and then the relitigation, of these counterclaims. Under these circumstances, we think that Izumi's interest in these counterclaims was indeed required to be raised by Izumi in the Florida action in which the counterclaims were already being litigated. Izumi does not have the absolute right to relitigate the same claims in Illinois, having voluntarily removed itself from the Florida litigation of these claims, and having declined to comply with the Illinois court's admonition to seek to reenter that litigation. This is particularly compelling because Izumi's antitrust counterclaims are based primarily on Philips' behavior in competition with Windmere, the precise subject of the Florida action.

In the Florida litigation Izumi and Windmere had successfully opposed Philips' attempt to sever the antitrust counterclaims from the patent issue. Izumi and Windmere, represented by the same counsel, argued to the Florida court that:

> [Severance of patent infringement] would cause a waste of judicial time and impose an undue burden on Defendants in having to duplicate proof and witnesses at those trials, and require the impaneling of two juries. Defendants' Counterclaims, both as to misuse and antitrust violations to a significant degree encompass Plaintiffs' acquisition and use of the patent in suit and false assertion of alleged common law trademark rights as part of Plaintiffs' efforts to restrain legitimate competition and monopolize the relevant market. . . . By necessity Defendants' wit-

> nesses and proof on these issues are pertinent to all claims and would be duplicitous in both trials.

Defendants' Memorandum in Opposition to Plaintiff's Motion to Sever Counterclaims, at 6-7, *U.S. Philips Corp. v. Windmere Corp.*, 680 F. Supp. 361 (S.D. Fla. 1987). Windmere and Izumi prevailed on the motion, and the patent and antitrust issues were fully tried in the same trial.

To support its position that it is entitled to bring its counterclaims in a second forum, Izumi places weight on *Southern Construction Co. v. Pickard*, 371 U.S. 57, 60-61 (1962), wherein the Court held that a compulsory counterclaim could be litigated in either of two pending actions that under the Miller Act were required to be brought in different jurisdictions. *Southern Construction* indeed permitted a choice of either forum; but it did not permit a choice of both forums. *Southern Construction* weighs against Izumi's attempt to relitigate in Illinois the claims that were fully litigated in the Florida action to which Izumi was a party, witness, and indemnitor.

Izumi also cites *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 671 (1944), wherein the Court held that an antitrust defense could be asserted in a later action, if not raised by a related defendant in the first infringement action. However, *Mercoid* did not hold that the same antitrust claim could be fully litigated a second time, if it were raised and litigated by a related party in the first action.

Izumi does not dispute that its antitrust counterclaims are substantially the same as those that were litigated in Florida. On this basis, and in view of the Illinois district court's admonitions to Izumi, we discern no error in the district court's holding that Izumi could not, in these circumstances, retry the same antitrust counterclaims in Illinois.

Izumi and Windmere successfully obtained the litigation of the antitrust counterclaims together with the patent

claim in Florida, by arguing that severance would be "a waste of judicial time" and an "undue burden on Defendants." *See supra.* This argument, and the ensuing full litigation of the antitrust counterclaims in Florida, create a form of "judicial estoppel" against Izumi's position that it now has the absolute right to relitigate the same claims against the same party. Judicial estoppel is an equitable principle that holds a party to a position on which it prevailed, as against later litigation arising from the same events. *Eagle Foundation, Inc. v. Dole,* 813 F.2d 798, 810 (7th Cir. 1987).[3] *See Davis v. Wakelee,* 156 U.S. 680, 689 (1895) ("Where a party assumes a certain position in a legal proceeding, and succeeds in maintaining that position, he may not thereafter, simply because his interests have changed, assume a contrary position.")

The doctrine of judicial estoppel is directed to the preservation of the integrity of judicial proceedings by protecting against litigants who " 'play fast and loose with the courts.' " *In re Cassidy,* 892 F.2d 637, 641 (7th Cir.), *cert. denied,* 498 U.S. 812 (1990) (quoting *Scarano v. Central R. Co.,* 203 F.2d 510, 513 (3d Cir. 1953)). *See Levinson v. United States,* 969 F.2d 260, 264 (7th Cir.), *cert. denied,* 113 S. Ct. 505 (1992). The Seventh Circuit has held that judicial estoppel may lie when "[e]ven though [the party] did not prevail on the appeal as a whole, he did prevail on the subsidiary question of what issues were to be decided by the court." *Cassidy,* 892 F.2d at 641.

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[3] In applying judicial estoppel we look to the law of the Seventh Circuit, for the issue is not unique to patent cases. *Allen Organ Co. v. Kimball Int'l, Inc.,* 839 F.2d 1556, 5 USPQ2d 1769 (Fed. Cir.) (in matters not unique to patent law the Federal Circuit applies the perceived law of the circuit in which the case was tried), *cert. denied,* 488 U.S. 850 (1988). *See Water Technologies Corp. v. Calco, Ltd.,* 850 F.2d 660, 665-66 & nn. 3, 4, 7 USPQ2d 1097, 1101 & nn. 3, 4 (Fed. Cir. 1988) (applying Seventh Circuit law of judicial estoppel).

We conclude that the criteria of judicial estoppel, as defined by the Seventh Circuit, were met. Izumi took the position that the antitrust counterclaims were compulsory in the Florida litigation, or at least that they should not be severed because the witnesses and proof would be duplicated. The Florida court adopted this position, and the claims were fully litigated in Florida. Izumi's present position that it had the right not to participate in the retrial of the issues that it insisted should be tried together, and can now require a duplicate trial of the identical issues, leaves us with the firm impression that Izumi has "played fast and loose with the courts." Although the Illinois court did not mention this ground, we think that judicial estoppel provides a sound rationale for affirmance of the district court's decision. *See Cassidy*, 892 F.2d at 641 (Because the doctrine of judicial estoppel "is intended to protect the courts rather than the litigants," it is proper for the appellate court to raise the estoppel "in an appropriate case.") Appellate review of the interlocutory order is not confined to the precise questions certified by the district court. "[A]ll questions material to the order are properly before the court of appeals." *Nuclear Engineering Co. v. Scott*, 660 F.2d 241, 246 (7th Cir. 1981), *cert. denied*, 455 U.S. 993 (1982). *See United States v. Connolly*, 716 F.2d 882, 885 (Fed. Cir. 1983) ("[T]he nature and scope of our review are not limited to the certified question, but . . . we are free to consider all questions material to the trial court's order sustaining its jurisdiction."), *cert. denied*, 465 U.S. 1065 (1984).

B

Izumi also argues that it raised additional antitrust issues in Illinois, beyond those litigated in Florida. These additional issues are described as relating to the charge that Philips' litigation was "sham." Windmere and Izumi had alleged in Florida that Philips' patent infringement suit was sham, and also that Philips had improperly sued Izumi in Japan.

The charge that Philips' patent infringement suit in Florida was sham can not be deemed to have substance, for Philips prevailed in Florida on that issue. "A winning lawsuit is by definition a reasonable effort at petitioning for redress and therefore not a sham." *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 113 S. Ct. 1920, 1928 n.5 (1993). Further, the place to challenge litigation as sham is in the asserted sham litigation, to which Izumi was a party.

Izumi also presses the claim that Philips filed sham patent litigation in Japan in 1978. No substantive support for this assertion is before us, and no argument is offered that this is a different issue from that raised in the Florida action. We discern no error in the district court's holding that all of the antitrust counterclaims were barred.

II

STANDING

The district court also certified the sub-issue of whether Izumi has "standing" to raise these antitrust counterclaims. The district court made no decision on this issue. In view of our affirmance of the district court's action, and the silence of the district court on this issue, we need not and do not reach this question.

III

UNFAIR COMPETITION

Judgment in the Florida litigation was entered in favor of Windmere and against Philips on the unfair competition count. After the Federal Circuit vacated the Florida judgment, *Philips v. Windmere*, 971 F.2d 728, 23 USPQ 2d 1709, the Illinois district court reinstated Philips' unfair competition count against Sears, ruling that the vacated Florida judgment did not have collateral estoppel effect. This led to the second certified question:

2. [W]hether under the law of the 7th Circuit, plaintiff N.A. Philips can be barred under collateral estoppel from again retrying the issue of trade dress infringement in view of the findings of the jury and the judgment of the Court in *U.S. Philips Company et al. v. Windmere Corp. et al.*, where the final judgment of the Court was vacated predicated upon a settlement reached between Philips and Windmere.

A

Sears argues that this court's vacatur of the Florida judgment was improper and should be reconsidered. However, the question of vacatur was finally decided, and is not subject to further review or collateral attack. Although Sears suggests that this vacatur was contrary to the Supreme Court's decision in *U.S. Bancorp Mortgage Co. v. Bonner Mall Partnership,* 115 S. Ct. 386, 393 (November 8, 1994) (holding that vacatur by an appellate court, absent extraordinary circumstances, is not justified by mootness due to settlement), that holding does not impair the binding effect of this earlier decision. A final judgment is not voided if the precedent upon which it was based is later modified or overruled. *Federated Department Stores, Inc. v. Moitie,* 452 U.S. 394, 398 (1981). Thus it is unnecessary to decide whether, as Philips suggests, there were indeed extraordinary circumstances that justified vacatur in this case.

B

Sears also argues that even if the Florida judgment were properly vacated, the Seventh Circuit would give the vacated judgment collateral estoppel effect. Collateral estoppel bars the relitigation of factual issues that were fully and fairly litigated and were the basis of final judgment in an action to which the person against whom the estoppel is sought was a party; there need not have been privity

with the party now invoking the estoppel. *Blonder-Tongue Labs., Inc. v. University of Illinois Found.*, 402 U.S. 313, 332-33, 169 USPQ 513, 521 (1971); *Commissioner v. Sunnen*, 333 U.S. 591, 599-601 (1948).

The district court did not agree, and indeed we do not think that Sears has accurately described the precedent of the Seventh Circuit. In *Pontarelli Limousine, Inc. v. City of Chicago*, 929 F.2d 339, 340-41 (7th Cir. 1991) the Seventh Circuit held that a state court judgment that had been vacated pursuant to a settlement agreement did not preclude relitigating the issue in federal court, and added that this ruling embraced vacated federal as well as state judgments:

> [The question on appeal] is whether the district judge erred in refusing to give the judgment in *Chicago Courtesy* collateral estoppel effect in this case . . . . He did not err. A vacated judgment has no collateral estoppel or res judicata effect under Illinois law, *Mattchett v. Rose*, 36 Ill. App. 3d 638, 649, 344 N.E.2d 770, 779 (1976) (or any other law, *No East-West Highway Committee, Inc. v. Chandler*, 767 F.2d 21, 24 (1st Cir. 1985)).

Pontarelli, 929 F.2d at 340. In *No East-West Highway* the court stated that a vacated judgment "has no preclusive force either as a matter of collateral or direct estoppel or as a matter of the law of the case." 767 F.2d at 24.

The Seventh Circuit in *Pontarelli* distinguished its earlier decision in *In re Memorial Hospital of Iowa County, Inc.*, 862 F.2d 1299 (7th Cir. 1988) (refusing to vacate a judgment), and stated that if the court in *Memorial Hospital* had vacated the judgment "it could not have been used in future litigation." *Pontarelli*, 929 F.2d at 340. Thus we discern no error in the district court's rul-

ing that the vacated Florida judgment has no collateral estoppel effect.[4] That judgment is affirmed.

AFFIRMED

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[4] Philips also argued that the unfair competition issues raised against Sears are matters of Iilinois law, and that the issues and burdens with respect to trade dress law are different in Illinois and in Florida. We express no view on the substantive correctness of this position, but take note that collateral estoppel can not lie when the issues or applicable law differ. *Sunnen*, 333 U.S. at 599-601.

FRIEDMAN, *Senior Circuit Judge,* dissenting in part.

I agree with and join part III of the court's opinion, which affirms the district court's reinstatement of N.A. Philips' unfair competition claim, and part II, which declines to reach the question whether Izumi has standing to raise the antitrust issues. I disagree, however, with the court's affirmance of the district court's dismissal of Izumi's antitrust counterclaim.

1. Rule 13 of the Federal Rules of Civil Procedure sets forth the standards governing counterclaims. Rule 13(a), captioned "Compulsory Counterclaims," provides that a claim "that arises out of the transaction or occurrence that is the subject matter" of the plaintiff's claim "shall" be filed in the litigation as a counterclaim. Rule 13(b), captioned "Permissive Counterclaims," permits the assertion in a counterclaim of "any claims against an opposing party not arising out of a transaction or occurrence that is the subject matter of the opposing party's claim." Failure to assert a compulsory counterclaim at the proper time bars the assertion of its claims in a subsequent suit. *Martino v. McDonald's System, Inc.,* 598 F.2d 1079, 1083 (7th Cir.), *cert. denied,* 444 U.S. 966 (1979); *Employers Ins. of Wausau v. United States,* 764 F.2d 1572, 1576 (Fed. Cir. 1985). The corollary is that if the counterclaim is permissive, failure to assert its claims in the prior proceeding does not bar their assertion in the subsequent one. *Rudell v. Comprehensive Accounting Corp.,* 802 F.2d 926, 928 (7th Cir. 1986) *cert. denied,* 480 U.S. 907 (1987).

Congress thus has provided, as the touchstone for determining whether a counterclaim is compulsory or permissive, whether the claim it asserts "arises out" of the transaction or occurrence that is the subject matter of the claim in the complaint. Unless it so arises, the failure to file a counterclaim in the first suit does not bar the litigation of the claim in the second suit.

2. The sole ground upon which the district court dismissed the counterclaim was that it was a compulsory one, which Izumi was required to assert in the Florida case, and that Izumi's failure to do so barred it from asserting the counterclaim issues in the Illinois case. That was the question the district court certified for interlocutory review.

This court, however, does not answer that question. Instead, it affirms the district court on the alternative ground that the doctrine of judicial estoppel bars Izumi from now litigating those claims in the Illinois case because (1) the antitrust claims are the same ones that Windmere fully litigated in the Florida case, in which Izumi initially was a party, (2) Izumi could have litigated those claims there, and (3) the Illinois court twice told Izumi to do so. The court stresses that before the first trial in the Florida court, Izumi and Windmere jointly opposed severance of the antitrust and patent claims on the ground that severance "would cause a waste of judicial time and impose an undue burden on Defendants. . . ."

The practical effect of the judicial-estoppel principle the court applies in affirming the district court's dismissal of Izumi's counterclaim is to treat the counterclaims as a compulsory one. The dismissal is upheld solely because Izumi should have litigated its counterclaim in the Florida case. Such dismissal is the consequence that follows the determination that a counterclaim not filed in the earlier case was compulsory.

The court reaches that result, however, without making any determination whether the counterclaims arose out of the same transaction or occurrence that was the subject of Philips' patent infringement suit in the Florida court against Windmere and Izumi. For all practical purposes, this means that the counterclaim is treated as compulsory without making the inquiry that Rule 13 prescribes as the basis for determining that question.

The court cites no case that directly supports its holding, which would allow a district court to dismiss a counterclaim because of failure to litigate it in a prior proceeding without first determining whether the counterclaim is permissive or compulsory. If Izumi's counterclaim is permissive—as I think it is—Rule 13 teaches that the claimant may litigate the counterclaim despite its failure to assert or litigate the claim in a prior case in which it could have done so.

The court's reliance on Izumi's prior assertion that trying the antitrust counterclaim separately "would cause a waste of judicial time and impose an undue burden on Defendants in having to duplicate proof and witnesses" ignores the fact that the Seventh Circuit has treated as permissive a counterclaim that "as a linguistic matter . . . might arguably have been said to come out of the same transaction" as a claim litigated in an earlier suit, *Colonial Penn Life Ins. v. Hallmark Ins.*, 31 F.3d 445, 448 (7th Cir. 1994), even though the trial of the counterclaim in the second case would likely result in duplication of witnesses, testimony, and other evidence. *See also Burlington Northern Railroad Co. v. Strong*, 907 F.2d 707 (7th Cir. 1990); *Gilldorn Sav. Ass'n v. Commerce Sav. Ass'n*, 804 F.2d 390 (7th Cir. 1986).

3. But even if a district court has the authority to dismiss a counterclaim in the circumstances of this case without determining whether it is permissive or compulsory, this is not an appropriate alternative ground for affirming the district court's judgment of dismissal.

The decision whether to dismiss on the ground that the court relies on requires the exercise of discretion by the district court. That, therefore, is a decision that the district court and not this court should make in the first instance. Where a district court abstains from deciding a case within its jurisdiction because of the pendency of a state court proceeding involving the same issue and the appellate court determines that the legal requirements for

abstention have been made, the district court's decision to abstain is reviewed under an abuse-of-discretion standard. *O'Neill v. City of Philadelphia,* 32 F.3d 785, 790 (3d Cir. 1994) (" 'We exercise plenary review over the legal determinations of whether the requirements for abstention have been met. Once we determine that the requirements have been met, we review a district court's decision to abstain under *Younger* abstention principles for abuse of discretion.' "); *Kollsman v. Los Angeles,* 737 F.2d 830, 833 (9th Cir. 1984) *cert. denied,* 469 U.S. 1211 (1985) (same). The same principle appears equally applicable to the ground on which the court affirms the district court's dismissal of the counterclaim here involved.

By determining that the district court properly dismissed the counterclaim on this ground, this court has precluded the district court from exercising its discretion in deciding the question. The district court here dismissed because it concluded that the counterclaim was compulsory, which meant that it had no choice but to dismiss. It cannot be said with certainty, however, that if the district court had determined that the counterclaim was permissive, it would have exercised its discretion in favor of dismissal.

In sum, the principle that an appellate court may affirm the judgment of a district court on any ground the record supports, even though that was not the basis of the district court's decision, cannot properly be applied where, as here, the alternative ground of affirmance involves the exercise of discretion that the district court has not undertaken.

That conclusion is underscored here because the court is reviewing an interlocutory order, which the district court certified for immediate appeal under 28 U.S.C. § 1292(b) because of its determination that its order dismissing Izumi's counterclaim

> involve questions of law as to which there are substantial grounds for differences of opinion and an immediate appeal from such Order may materially

> advance the ultimate termination of the present litigation. The specific issues are whether Izumi is barred from pursuing such counterclaims on the basis that such counterclaims were compulsory counterclaims in a previously filed action of *U.S. Philips Company et al.* v. *Windmere Corp., et al.,* which could not be asserted in this action.

That, presumably, was the question the court understood it would decide when it authorized the appeal pursuant to that section. Although a court of appeals that authorizes such an appeal is not limited to deciding the certified question, *Calhoun v. Yamaha Motor Corp.,* 40 F.3d 622, 626 (3d Cir. 1994), *pet. for cert. filed,* (Feb. 17, 1995), affirmance of the district court order on another ground is inappropriate unless the other ground unequivocally requires affirmance. Because of the discretionary nature of the court's alternative-affirmance ground, this is not such a case.

4. I would, therefore, decide the certified question, hold that under Seventh Circuit law Izumi's counterclaim is permissive, not compulsory and reverse the district court's order insofar as it dismissed the counterclaim. Since the court does not address that issue, however, I do not discuss it.

APPENDIX B

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

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85 C 5366

U.S. PHILIPS CORPORATION,
NORTH AMERICAN PHILIPS CORPORATION,
Plaintiffs,

v.

SEARS ROEBUCK & Co., and
IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Defendants.

MEMORANDUM OPINION

CHARLES P. KOCORAS, District Judge:

This patent infringement/unfair competition dispute is presently before the court on two motions. The first motion is brought by plaintiffs, U.S. Philips Corporation ("U.S. Philips") and North American Philips Corporation ("N.A. Philips"), to vacate the summary judgment entered by this Court on October 5, 1990, dismissing plaintiffs' unfair competition claim against defendant Sears Roebuck & Co. ("Sears"). The second motion is brought by defendant, Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi") to reconsider this Court's order on December 1, 1987, for partial summary judgment dismissing this defendant's antitrust counterclaims.

For the sake of brevity, the Court will not repeat here the well-known procedural history of this case but will include pertinent procedural facts in our discussion below.

For the reasons set forth below, we will grant plaintiffs' motion to vacate the summary judgment order and will deny Izumi's motion for reconsideration.

DISCUSSION

A. *MOTION TO VACATE SUMMARY JUDGMENT*

Plaintiffs, U.S. Philips and N.A. Philips (collectively "Philips") move this Court to vacate the October 5, 1990 summary judgment order dismissing N.A. Philips' claim for unfair competition against defendant, Sears. Philips argues that the sole basis of our summary judgment order against N.A. Philips rests on the collateral estoppel effect of the Florida court judgment entered against N.A. Philips on its unfair competition claim against Windmere corporation. In support, Philips refers to our memorandum opinion, where we held that the judgments in the Florida cases (*"Windmere"*), preclude Philips' claims against Sears:

> Twice Philips litigated these essential elements in *Windmere* and twice the jury found that Philips had not proven the required elements. As functional designs are not accorded any protection under trademark or unfair competition law (cite omitted), the court in *Windmere* found that Philips' trade dress was not protected. . . Under *Blonder-tongue* Philips is now barred from relitigating the same issue in Illinois. Accordingly, Sears' motion for summary judgment on Philips unfair competition claim is granted.

(Memorandum Opinion, October 5, 1990, at 12-14). Philips further argues that the basis for our summary judgment ruling is no longer valid because the Federal Circuit vacated the *Windmere* judgment on July 31, 1992 following the parties' settlement agreement and move for vacatur.[1] Philips argues, and we agree, that as a result

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[1] The procedural history is as follows: In May 1992, Windmere and Philips reached a settlement of the *Windmere* action. Given

of their vacatur, the judgments in *Windmere* no longer have preclusive effect. Accordingly, we will vacate our summary judgment against N.A. Philips.

Defendant, Sears, opposes the motion to vacate the summary judgment, arguing that a judgment's preclusive effect is lost only when the judgment is vacated on the merits, not when the judgment is vacated upon settlement. We find, however, that the caselaw refutes this distinction. Moreover, Sears urges this Court to adopt the Ninth Circuit rule articulated in *Bates v. Union Oil Co.*, 944 F.2d 647 (9th Cir. 1991), *cert den Union Oil Co. v Bates*, 112 S. Ct. 1761, 60 U.S.L.W. 3735 (US 1992), holding that a vacated judgment can be given collateral estoppel effect where the parties settled while the judgment was on appeal. We find, however, that, in *Bates*, the Ninth Circuit drew a narrow exception to the settled rule for instances where a district court of that circuit vacates without first undergoing the weighing analysis mandated by the Ninth Circuit law in *Ringsby Truck Lines, Inc. v. Western Conference of Teamsters*, 686 F.2d 720 (9th Cir. 1982). Therefore, we find *Bates* inapplicable to the present case where the Federal Circuit vacated the *Windmere* judgments at issue *in compliance* with its own law. Moreover, Sears' implication that the Federal Circuit improperly vacated the *Windmere* judgments misconstrues the instant issue. The issue before this Court is not whether the Federal Circuit was correct in vacating the *Windmere* judgments but, rather, the im-

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that Philips was giving up its right to appeal by settlement, the parties agreed that they would jointly move to vacate the unfair competition and antitrust judgments. Izumi, the defendant in the patent infringement claim in this action, filed an objection to the motion to vacate the unfair competition judgment. Nonetheless, on July 31, 1992, the Court of Appeals for the Federal Circuit vacated the judgments. *See U.S. Philips v. Windmere Corp.*, No. 92-1020, slip op. at 5 (Fed. Cir. July 31, 1992). On August 12, 1992 the Federal Circuit denied Izumi's motion to stay the mandate for the vacatur order. On October 2, 1992, Izumi's petition for rehearing and for en banc consideration was denied.

pact of the vacatur thereby ordered on our prior summary judgment. For these reasons, we reject Sears' arguments in opposition to the motion to vacate the summary judgment.

The issue in contention between the parties is the collateral estoppel effects of a judgment vacated pursuant to settlement. In the ensuing discussion, we will address first the bases in support of our conclusion that a vacated judgment has no preclusive effect and then our reasons for vacating this Court's summary judgment order.

1. *A Vacated Judgment Has No Preclusive Effect*

As mentioned above, we relied upon the Florida court's *Windmere* judgments in reaching our determination in the summary judgment order that plaintiff's unfair competition claims were precluded on collateral estoppel grounds. On July 31, 1992, however, the Federal Circuit vacated these judgments. For the following reasons, we find that the vacated *Windmere* judgments have lost their preclusive effect.

a. *The Federal Circuit's Vacatur Was Proper*

The Federal Circuit's vacatur of the *Windmere* judgments was in compliance with the law of the Federal Circuit. In *U.S. Philips Corp. v. Windmere Corp.*, No. 92-1020 at 5 (Fed. Cir. July 31, 1992), the Federal Circuit ruled that vacatur of the *Windmere* trial judgments was appropriate because "settlement moots the action on appeal." In reaching this conclusion, the Federal Circuit relied on the following precedent: *Federal Data Corp. v. SMS Data Products Group, Inc.*, 819 F.2d 277, 280 (Fed. Cir. 1987) ("When the parties have settled their differences, then the appropriate course of action is for the appellate court to dismiss the action and to vacate the judgment below [citation omitted]."); *Smith Int'l. Inc. v. Hughes Tool Co.*, 839 F.2d 663, 664 (Fed. Cir. 1988) ("where it appears upon appeal that the controversy has become entirely moot, which is the effect of settlement in

this case, 'it is the duty of the appellate court to set aside the decree below and to remand the cause with directions to dismiss.' [citation omitted]"); and *United States v. Munsingwear, Inc.*, 340 U.S. 36, 39-40 (1950) ("the established practice of the Court in dealing with a civil case from a court in the federal system which has become moot while on its way here . . . is to reverse or vacate the judgment below"). The Federal Circuit addresses the effect of vacatur pursuant to settlement in its recent *Kimberly-Clark Corp. v. Proctor & Gamble Distributing Co.* decision, which is also noteworthy for its citation of the July 31, 1992 *U.S. Philips* ruling presently contemplated by this Court:

> Here, K-C and P & G settled the infringement issues by granting each other immunity from suit and releasing one another from past infringement damages. We therefore vacate that part of the district court's judgment relating to infringement, as such vacation eliminates judgments on which review has now being foreclosed. *United States v. Munsingwear, Inc.*, 340 U.S. 36, 39-40 (1950); *see also U.S. Philips Corp. v. Windmere Corp.*, No. 92-1020 (Fed. Cir. July 31, 1992); *Federal Data Corp. v. SMS Data Products Group, Inc.*, 819 F.2d 277, 280 (Fed. Cir. 1987).

Nos. 92-1011 & 92-1024, 1992 U.S. App. LEXIS 19815 at *6-*7 (Fed. Cir. Aug. 26, 1992). Our determination that the vacatur of the *Windmere* judgments terminates their preclusive effect is thus in accordance with the Federal Circuit's treatment of the issue. We further recognize that the Federal Circuit complied with the law of that circuit when it vacated the *Windmere* judgments in *U.S. Philips.*

b. *The Impact of Vacatur Under Seventh Circuit Law*

We determine that, according to the Seventh Circuit, a vacated judgment loses its preclusive effect, regardless of

whether or not the judgment was vacated pursuant to a settlement. Sears argues that the Seventh Circuit has not yet ruled on the issue whether to give collateral estoppel effect to a federal judgment vacated because the parties settled on appeal. We disagree in view of *Pontarelli Limousine, Inc. v. Chicago,* 929 F.2d 339 (CA7 Ill 1991), *reh, en banc, den Pontarelli Limousine, Inc. v. Chicago,* 1991 U.S. App. LEXIS 9467 (CA7 1991), where the Seventh Circuit held that an Illinois state court judgment lost all preclusive force when it was vacated pursuant to a settlement. In reaching this conclusion, the Seventh Circuit indicated that, though it applied Illinois law, this was federal law as well:

> The first question on appeal . . . is whether the district judge erred in refusing to give the judgment in *Chicago Courtesy* collateral estoppel effect in this case, . . . He did not err. A vacated judgment has no collateral estoppel or res judicata effect under Illinois law, [citation omitted] (or any other law, *No East-West Highway Committee, Inc. v. Chandler,* 767 F.2d 21, 24 (1st Cir. 1985).[2]

Sears points to the Seventh Circuit's holding in *In re Memorial Hospital of Iowa County, Inc.,* 862 F.2d 1299 (7th Cir. 1988), where the court held it would not vacate judgments on a motion by parties who settled while the case was on appeal. Sears uses this holding to argue that the Seventh Circuit's practice of refusing vacatur upon settlement avoids loss of preclusion in the instant case. The Seventh Circuit in *Pontarelli,* however, rejects this argument, which was raised by a party to that suit as well:

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[2] The court in *No East-West Highway* ruled, "A vacated judgment has no preclusive force either as a matter of collateral or direct estoppel or as a matter of the law of the case." 767 F.2d at 24. The court relied, in part, upon 18 C. Wright, A. Miller & E. Cooper, Federal Practice and Procedure § 4432 at 302 (1981), which reads: "Once . . . the judgment is vacated, preclusion is of course defeated as to any matter that is left open for further proceedings."

> The plaintiffs rely on *In re Memorial Hospital of Iowa County, Inc.*, 862 F. 2d 1299 (7th Cir. 1988), for the contrary position. But that was a case in which we refused to vacate a judgment. *Had we done so, then—as our opinion made clear—the judgment could not have been used in future litigation.* Indeed this case was one of the considerations that moved us not to vacate it. *Id.* at 1302. Maybe the judge in *Chicago Courtesy* should not have vacated the judgment in that case either, but he did so, and thus deprived it of any future effect.

929 F. 2d at 341 (emphasis added). In the instant case, we need not ask whether the Seventh Circuit would have vacated the *Windmere* judgments as did the Federal Circuit. Rather, what is important to the present motion is that the Federal Circuit vacated the *Windmere* judgments in compliance with the law of that circuit. In light of this properly entered vacatur and the *Pontarelli* holding, this Court determines that the *Windmere* judgments no longer have preclusive effect.

c. *Other Circuit's Treatment of This Issue*

We find that other circuits are in agreement with our resolution of this issue. The following court opinions attest to this: *Universal City Studios, Inc. v. Nintendo Co.*, 578 F. Supp. 911, 919 (S.D.N.Y. 1983) *aff'd Universal City Studios, Inc. v. Nintendo Co.* 746 F.2d 112 (CA2 NY 1984) (no preclusive effect as to any issues where court of appeals vacated judgment pursuant to parties's settlement agreement); *Dodrill v. Ludt*, 764 F.2d 442, 444 (6th Cir. 1985) ("[T]he general rule is that a judgment which is vacated, for whatever reason, is deprived of its conclusive effect as collateral estoppel."); *Delta air Lines, Inc. v. McCoy Restaurants, Inc.*, 708 F. 2d 582, 585 (11th Cir. 1983) (After noting that the parties "properly" decided not to argue that a judgment vacated on appeal after settlement carried any preclusive effect, the court

stated a "district court ruling vacated by a court of appeals as moot has no precedential value."); *Harris Trust and Savings Bank v. John Hancock Mutual Life Insur. Co.*, 1992 U.S. App. LEXIS 17451, No. 91-7584 at *25-*26 (2nd Cir. July 30, 1992) ("it is an abuse of discretion for a district court to refuse to enter a vacatur pursuant to a settlement providing that the vacated order could not have collateral estoppel effect in any subsequent action.").[3]

2. *The Summary Judgment Against N.A. Philips Shall Be Vacated*

This Court will vacate the summary judgment against N.A. Philips dismissing its unfair competition claim because the judgment upon which it rests has been vacated by the Federal Circuit in *U.S. Philips*. "[A] second judgment based upon the preclusive effects of the first judgment should not stand if the first judgment is reversed." Charles A. Wright et al., *Federal Practice and Procedure* § 4433 at 311 (1981). *See also Consolidated Express, Inc. v. New York Shipping Ass'n*, 641 F.2d 90, 93-94 (3d Cir. 1981) *prohibition den In re International Longshoremen's Asso.*, 451 U.S. 905 (1981) ("Since the judgment which was the predicate for our discussion of collateral estoppel has been vacated so much of our prior judgment as required giving that judgment any effect in this case must be vacated."); *Fredyma v. AT&T Network Systems, Inc.*, 1991 U.S. App. LEXIS 13699 at *2 (1st Cir. 1991) (Dismissal of a second complaint based on the preclusive effect of the first complaint whose dismissal was later vacated on appeal had to be reinstated because "[a] judgment that has been vacated, reversed, or set aside

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[3] In agreement is 1AB James Wm. Moore et al., Moore's Federal Practice ¶ 0.416[2] at 517 (2d ed. 1992): "A judgment that has been vacated, reversed, or set aside on appeal is thereby deprived of all conclusive effect, both as res judicata and as collateral estoppel [footnote omitted] The same is true, of course, of a judgment vacated by a trial court."

on appeal is thereby deprived of all conclusive effect, both as res judicata and as collateral estoppel."); *Humphreys v. Bic Corp.*, 1991 U.S. App. LEXIS 905 at *11 (CA6 1991) ("A judgment in a second action that rests on the preclusive effects of a judgment in a prior action should not be allowed to stand if the first judgment is reversed.").

Therefore, in light of the Federal Circuit's vacatur of the *Windmere* judgments and our determination that, as such, the judgments no longer have preclusive effect, we vacate the summary judgment this Court entered against N.A. Philips.

B. *MOTION FOR RECONSIDERATION*

Izumi presently moves this Court to reconsider its December 1, 1987 order granting partial summary judgment, where we held that Izumi's antitrust counterclaims were compulsory counterclaims in the *Windmere* action. Izumi bases this present motion on the alleged reversal of representations made by Philips before the Federal Circuit and this Court. Izumi contends that Philips currently asserts that the predatory pricing antitrust counterclaims do not arise out of the same transaction or occurrence as the subject matter of the patent claim filed by U.S. Philips against Izumi, whereas at the time of moving for summary judgment against Izumi's antitrust counterclaims, Philips asserted the exact opposite. The issue we must address is whether Philips' allegedly contradictory representations entitles Izumi to have its counterclaims reinstated. We determine that they do not and thereby deny Izumi's motion.

In our December 1, 1987 opinion, this Court determined that Izumi's antitrust claims were compulsory counterclaims which should have been brought in the Florida *Windmere* action. This Court then concluded that since Izumi did not file these claims in the Florida action and the case proceeded to final judgment, Izumi was barred from bringing those claims here. We stated:

> Thus, Izumi as a named defendant to the patent infringement claim, and the conceded "real party in interest" to the claim of unfair competition, had the capacity to present its entire controversy in the *Windmere* lawsuit. It was, therefore, incumbent upon Izumi to do so or be forever barred.

(Memorandum Opinion, at 13). Therefore, we granted partial summary judgment for Philips, holding that Izumi's antitrust counterclaims were compulsory counterclaims in *Windmere* and, as such, were barred from the instant action.

We recognize that Izumi's three prior motions for reconsideration were denied by this Court on December 22, 1987, May 19, 1989, and May 17, 1990. On all three occasions, we ruled that Izumi had presented nothing that in any way affected the basis for this Court's original ruling. Once again, we find that Izumi's contentions do not refute the wisdom of our prior holding. The fact of Philip's change in position, even if it is true, does not give this Court sufficient ground to reverse its prior ruling that Izumi's claims were compulsory counterclaims which should have been brought in the Florida action. Consequently, Izumi's motion to reconsider is denied.

CONCLUSION

For the foregoing reasons, we grant Philips motion to vacate the summary judgment entered by this Court on October 5, 1990, dismissing Philips' unfair competition claim against Sears. We deny Izumi's motion for reconsideration.

/s/ Charles P. Kocoras
CHARLES P. KOCORAS
United States District Judge

Dated: Oct. 13, 1992

APPENDIX C

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

93-1188

U.S. PHILIPS CORPORATION and
NORTH AMERICAN PHILIPS CORPORATION,
Plaintiffs-Appellees,

v.

SEARS ROEBUCK & CO. and
IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Defendant-Appellants.

ORDER

A combined petition for rehearing and suggestion for rehearing in banc having been filed by the APPELLANT, and a response thereto having been invited by the court and filed by the APPELLEE, and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the suggestion for rehearing in banc and response having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the suggestion for rehearing in banc be, and the same hereby is, DECLINED.

The mandate of the court will issue on July 13, 1995.

Circuit Judge NIES did not participate in the vote.

FOR THE COURT,

FRANCIS X. GINDHART
Clerk

By /s/ Diane M. Frye
DIANE M. FRYE
Chief Deputy Clerk

Dated: July 6, 1995

cc: GARY M. HOFFMAN
WILLIAM E. WILLIS

APPENDIX D

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

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85 C 5366

U.S. PHILIPS CORPORATION and
NORTH AMERICAN PHILIPS CORP.,
Plaintiffs,

v.

SEARS ROEBUCK & CO. and
IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Defendants.

MEMORANDUM OPINION

CHARLES P. KOCORAS, District Judge:

This patent infringement/unfair competition dispute is presently before the court on three motions brought by Defendants Sears Roebuck & Co. ("Sears") and Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi"). The first motion is for summary judgment dismissing Plaintiffs U.S. Philips Corporation and North American Philips Corporation (both referred to jointly as "Philips") on their claim for infringement of U.S. Patent No. 4,227,301 (the "301 patent"). The second motion is for summary judgment dismissing Philips' claim for infringement of U.S. Design Patent No. 259,591 (the '591 patent"). The third motion the defendants bring is for summary judgment dismissing Philips' claim for unfair competition. For the reasons stated herein, the first and second motions are denied and the third motion is granted.

FACTS

Izumi is a Japanese corporation which sells razors to Windmere Corporation and Sears for resale in the United States. Windmere sells its razors under the "Ronson" trade name and Sears sells its razors under the name "Sears Rotomatic." N.V. Philips is a Netherlands corporation which sells its razors in the United States through American Philips Corporation under the tradename "Norelco." N.V. Philips indirectly owns or controls U.S. Philips, a Delaware corporation which holds intellectual property rights including the utility and design patents at issue in this case.

Philips filed this action on June 6, 1985, alleging that Sears infringed and Izumi induced the infringement of the '301 patent and the '591 patent. Specifically, in their claim for the infringement of the '301 patent, Philips allege that the design of the Sears Rotomatic shaver blade setting is an unfair copy of the design of Philips' rotary electric shaver blade setting. Concerning the infringement of the '591 patent, Philips allege that the faceplate of the Sears' Rotomatic III shaver is an infringment of the '591 patent. On February 12, 1986, Philips filed a supplemental complaint against Sears alleging two counts of unfair competition, claiming that the design of a Sears shaver was a copy of the design of some of Philips' shavers.

On June 13, 1988, this court granted summary judgment as to Izumi and denied as to Sears on the '301 patent infringement claim. This court also denied the defendants' motion for summary judgment as to the '591 patent infringement claim as material issues of fact existed which could only be decided by the trier of fact.

Philips had filed a similar lawsuit against Izumi and Windmere, the other seller of Izumi razors, in a Florida district court in October 1984. Philips claimed an infringement of the '301 patent and unfair competition in voilation of 43(a) of the Lanham Act, 15 U.S.C. § 1125

U.S. Philips v. Windmere Corp., No. 84-2508-Civ (the "Florida litigation"). In that suit Philips alleged that the design of all of the rotary electric shavers sold by Windmere were an unfair copy of the design of some of Philips rotary electric shavers. Izumi filed a declaratory judgment counterclaim in the Florida litigation alleging that the '301 patent was invalid and not infringed. That case proceeded to a jury trial and on April 30, 1986, the court entered final judgment on the jury's verdict in favor of Philips on the patent infringement claims, against Izumi on its declaratory judgment counterclaim, and against Philips on its unfair competition claims. On March 20, 1988, the Florida Court granted Philips' motion for a new trial on its unfair competition claims only. Philips' unfair competition claim was retried in Florida in March and April 1990. On April 6, 1990, the jury found for Windmere on all issues. Philips then filed motions for a judgment notwithstanding the verdict and for a new trial in the Florida action.

DISCUSSION

I. Summary Judgment Standard

Summary judgment is appropriate if the pleadings, answers to interrogatories, admissions, affidavits and other materials show "that there is no genuine issue as to any material fact and the moving party is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(c). A material fact is one which might effect the outcome of the suit under applicable law. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). No genuine issue exists "unless there is sufficient evidence favoring the non-moving party for a jury to return a verdict for that party." *Id.* at 249. Summary judgment may be granted if the evidence is merely colorable or is not significantly probative. *Id.* at 249-50.

When a properly supported motion for summary judgment has been made, the opposing party "must set forth

specific facts showing that there is a genuine issue for trial." *Id.* The opposing party is entitled to the benefit of all favorable inferences which can reasonably be drawn from the underlying facts; however, only *reasonable* inferences will be drawn, not every conceivable inference. *DeValk Lincoln Mercury, Inc. v. Ford Motor Co.*, 811 F.2d 326, 329 (7th Cir. 1987).

II. '301 Patent

Defendant Sears moves under the doctrine of collateral estoppel for summary judgment based upon the results of the trials in *U.S. Philips v. Windmere*, No. 84-2508-Civ ("Windmere"). In *Windmere* the jury awarded Philips $6,500.00 for Izumi's infringement of the '301 patent. Sears argues that because Izumi provided Sears with substantially the same shaver parts as Izumi gave Windmere, any patent infringement of the '301 patent by Sears should result in the same damage award as the jury awarded in *Windmere*. Sears seeks an order limiting the damages for any '301 patent infringements to $6,500.00.

Philips responds by arguing that 1) there is no showing that the infringements by Sears and Windmere were identical, 2) Philips may be awarded increased damages in the present case because of the Philips' claim that Sears willfully infringed the patent, and 3) it is unclear how the jury in *Windmere* came to award $6,500.00 in damages. Thus, the $6,500.00 award should not be following in the present case. We agree with Philips.

A. *Law of Collateral Estoppel*

The collateral estoppel doctrine precludes relitigation of issues in a subsequent proceeding when the following four elements are satisfied: 1) the party against whom estoppel is asserted was a party to the prior adjudication; 2) the issues forming the basis of the estoppel were actually litigated and decided on the merits in the prior suit; 3) resolution of those particular issues was necessary

to the court's judgment and 4) those issues are identical to the issues raised in the subsequent suit. *County of Cook v. Midcom Corp.*, 773 F.2d 892, 898 (7th Cir. 1985); *Guenther v. Holmgreen*, 738 F.2d 879, 844 (7th Cir. 1984). Collateral estoppel "must be confined to situations where the matter raised in the second suit is identical in all respects with that decided in the first proceeding and where the controlling facts and applicable legal rules remain unchanged." *Commissioner v. Sunnen*, 333 U.S. 591, 599-600 (1948). The party asserting collateral estoppel has the burden of proving each of those elements. *Folson v. Continental Illinois National Bank & Trust Co.*, 633 F. Supp. 178, 181 (N.D. Ill. 1986). Even where those elements are shown, however, there is no preclusion if the party against whom collateral estoppel is asserted had no full and fair opportunity to litigate the issues in the former action. *Blonder-Tongue Laboratories v. University of Illinois Foundation*, 91 S. Ct. 1434, 1445 (1971).

B. *Application to claim '301 patent infringement*:

The Florida jury's award of $6500.00 for Izumi and Windmere's infringement of the '301 patent is not binding in this suit for Sears' infringement. To begin, Sears has made no showing that the circumstances of its infringement are identical to Windmere's. The facts suggest different periods of infringement by different shavers. Sears acknowledged that it began selling Izumi-manufactured rotary shavers in 1977, whereas, the evidence in *Windmere* showed that Windmere did not begin selling rotary shavers until 1984.

In addition, if Philips is successful in proving willful infringement by Sears, Philips may get increased damages under 35 U.S.C. 284. Finally, the *Windmere* jury awarded a dollar amount without a clear explanation of the method of calculation. Sears argues that the jury used the cost to Izumi to make a non-infringing replacement part as the basis of their damage calculation. This is specula-

tion. Without more, the damage award in *Windmere* will not be assumed to apply to Sears. Philips should be free to seek damages specific to Sears' alleged infringement in this action. Sears' motion for summary judgment to limit the damage award is denied.

III. '591 Patent

Sears and Izumi seek summary judgment on the '591 patent infringement claim as 1) Philips admitted on three occasions that the Sears Rotomatic III faceplate does not infringe the '591 patent, and 2) the Sears Rotomatic III faceplate does not duplicate any novel feature of the '591 faceplate.

Philips responds by arguing that 1) this is a duplicate motion that this court already denied and the law has not changed to warrant a reversal of the court's prior ruling, 2) the alleged admissions are taken out of context, and 3) there is a factual issue for the jury as to whether the designs would confuse the ordinary purchaser. Therefore, summary judgment is inappropriate here. We agree with Philips.

We will view Sears' motion for summary judgment on the '591 patent infringement claim as a new motion and discuss it accordingly. In our June 13, 1988, opinion in this case we informed the parties that the infringement claim required a comparison by the "ordinary observer" under the *Gorham* test. The *Gorham* test provides:

> if, in the eye of a ordinary observer, giving such attention as a purchaser usually gives, two designs are substantially the same, if the resemblance is such as to deceive such an observer, inducing him to purchase one supposing it to be the other, the first one patented is infringed by the other.

Gorham Mfg. Co. v. White, 81 U.S. 511, 528 (1872).

Sears argues that on different occasions a Philips' researcher, attorney, and Vice President for marketing all

admitted that the Sears Rotomatic did not duplicate the '591 patent. Philips responds that these alleged admissions are taken out of context. Moreover, as we stated in our June 13th opinion, the Vice President of marketing is not the "ordinary observer". Likewise, the attorneys and researchers are not ordinary observers. Moreover, there still exits a factual dispute as to whether the Sears Rotomatic would confuse the ordinary purchaser.

Sears also argues that *Avia Group International, Inc. v. L.A. Gear California, Inc.*, 853 F.2d 1557 (Fed. Cir. 1988) establishes a new standard for infringement claims, requiring the infringing item to copy the novel feature of the infringed patent. Sears argues that its faceplate does not copy the novel feature of the '591 faceplate. However, even under *Avia Group*'s novel feature standard, Sears' argument must fail.

There is a factual issue as to what the '591 novel features are. The parties disagree on which diagrams are accurate representations of the '591 faceplate and the Sears Rotomatic faceplate. Also, Sears argues that '110 patent is prior art to '591. Philips claims that '110 patent is a utility patent primarily directed to the inner mechanism of a shaver. Clearly, with such disagreements between the parties, the issue of whether Sears has infringed the '591 patent presents factual issues for the trier of fact. Accordingly, Sears motion for summary judgment on the issue of whether the Sears Rotomatic infringed '591 patent is denied.

IV. Unfair Competition

Sears seeks summary judgment dismissing the unfair competition claim as Philips fully litigated and lost the identical claim in *Windmere*. Specifically, Sears argues that 1) two juries found the three elements necessary to an unfair competition claim lacking in *Windmere*, 2) both the *Windmere* claim and the present claim were brought under § 43(a) of the Lanham Act, § 1125(a) of 15

U.S.C., 3) the jury instructions that the Florida judge gave on functionality and second meaning were consistent with Illinois law, and 4) the Seventh Circuit twice rejected Philips' different law arguments.

Philips responds that it has not had a full and fair opportunity to litigate its case against Sears as Sears was not a party in *Windmere*. Specifically, Philips argues that 1) Illinois courts and Florida courts analyze the issues of functionality and secondary meaning differently and the burdens are different for the plaintiffs and defendants, and 2) the likelihood of confusion to consumers is based on many marketing factors which will be different for Sears than they were for Windmere. Thus, summary judgment is inappropriate in this case. However, Philips' arguments miss the point. The *Windmere* court has already determined that Philips' trade dress is not protected, thus, whether Sears actually copied it or not is irrelevant.

To receive legal protection for a trade dress a party must generally prove the following three elements: 1) its design was primarily non-functional; 2) the design had achieved secondary meaning; and 3) there was a likelihood of confusion between the plaintiff's product and the defendant's product. *See e.g., Blau Plumbing Inc. v. S.O.S. Fix-it, Inc.*, 781 F.2d 604, 608-611 (7th Cir. 1986). Twice Philips litigated these essential elements in *Windmere* and twice the jury found that Philips had not proven the required elements. As functional designs are not accorded any protection under trademark or unfair competition law, *see, e.g., Blau*, 781 F.2d at 610, the court in *Windmere* found that Philips' trade dress was not protected.

In a patent infringement suit, the patentee is estopped from asserting the validity of a patent that had already been declared invalid in a prior suit in federal court against a different defendant, unless the patentee demonstrates that he did not have fair and full opportunity, substantively, procedurally, and evidentially, to litigate the

validity of his patent in the prior suit. *Blonder-Tongue Laboratories v. University of Illinois Foundation,* 91 S. Ct. 1434, 1445 (1971); *A.J. Canfield Company v. Vess Beverages, Inc.*, 859 F.2d 36, 40 (7th Cir. 1988).

In the present case, Philips has presented no evidence to suggest that they did not have a full and fair opportunity to litigate their trade dress in Florida. In fact, Philips litigated their trade dress in Florida on two different occasions. As Philips points out, were the court to accept Philips' position, Philips would be allowed to argue circuit by circuit whether its trade dress should be protected. This would lead to an inconsistent result where Philips' trade dress would be functional, and capable of being copied, in some circuits and non-functional and not capable of being copied in others.

The arguments Philips presents to argue that the law and burden of persuasion differ in Illinois and Florida are off base. Philips *chose* to litigate its trade dress in Florida. Philips was prepared to and did litigate its claim to the finish. Under *Blonder-tongue* Philips is now barred from relitigating the same issue in Illinois. Accordingly, Sears' motion for summary judgment on Philips' unfair competition claim is granted.

/s/ Charles P. Kocoras
CHARLES P. KOCORAS
United States District Judge

Dated: October 5, 1990

APPENDIX E

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

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85 C 5366

U.S. PHILIPS CORPORATION and
NORTH AMERICAN PHILIPS CORPORATION,
Plaintiffs,

v.

SEARS ROEBUCK & Co., and
IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Defendants.

ORDER

CHARLES P. KOCORAS, District Judge:

This Court, with the agreement of the parties, has decided that the questions ruled upon in its Memorandum Opinions and orders dated December 1, 1987, December 22, 1987, May 19, 1989, May 17, 1990 and October 13, 1992 should be certified for immediate appeal pursuant to 28 U.S.C. § 1229(b). Accordingly,

(1) IT IS ORDERED that the Orders of this Court entered on December 1, 1987, December 22, 1987, May 19, 1987, May 17, 1990, and October 13, 1992 be amended to include the following statement in such Orders that:

> "In the opinion of this Court, these Orders granting Summary Judgment against Izumi's antitrust counterclaims involve questions of law as to which there are substantial grounds for differences of opinion and an

immediate appeal from such Order may materially advance the ultimate termination of the present litigation. The specific issues are whether Izumi is barred from pursuing such counterclaims on the basis that such counterclaims were compulsory counterclaims in a previously filed action of *U.S. Philips Company et al.* v. *Windmere Corp., et al.* which could not be asserted in this action, and whether Izumi has standing to raise these particular antitrust counterclaims."

(2) IT IS ORDERED that the Order of this Court entered on October 13, 1992, be and is hereby amended to include the following statement in such Order:

"In the opinion of this Court, this Order reconsidering this Court's prior Summary Judgment against N.A. Philips' unfair competition claims and reinstating those claims involve a controlling question of law as to which there is a substantial ground for difference of opinion, and an immediate appeal from such Order may materially advance the ultimate termination of this litigation. Such issue involves whether under the law of the 7th Circuit, plaintiff N.A. Philips can be barred under collateral estoppel from again retrying the issue of trade dress infringement in view of the findings of the jury and the judgment of the Court in *U.S. Philips Company et al.* v. *Windmere Corp., et al.*, where the final judgment of the Court was vacated predicated upon a settlement reached between Philips and Windmere."

3. The bases for differing opinion on these issues are apparent in this Court's Memorandum Opinions and Orders. They are controlling questions of law in this litigation because they determine whether principal claims of the parties may be tried. An immediate appeal from these Memorandum Opinions and Orders may materially advance the ultimate termination of this cause because such an appeal will determine with finality which claims will proceed to trial. This will avoid the potential for multiple

trials at considerable expense if any of this Court's ruling on the questions are found to be in error and prompt resolution of these issues may promote settlement.

/s/Charles P. Kocoras
CHARLES P. KOCORAS
United States District Judge

Dated: November 6, 1992

APPENDIX F

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Miscellaneous Docket No. 361

U.S. PHILIPS CORPORATION and
NORTH AMERICAN PHILIPS CORPORATION,
Plaintiffs-Respondents,

v.

SEARS ROEBUCK & CO. and
IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Defendants-Petitioners.

On Petition for Permission to Appeal

Before MAYER, *Circuit Judge*, COWEN, *Senior Circuit Judge*, and SCHALL, *Circuit Judge*.

SCHALL, *Circuit Judge*.

ORDER

Izumi Seimitsu Kogyo Kabushiki Kaisha (Izumi) and Sears Roebuck & Co. (Sears) petition for permission to appeal from certain orders of the United States District Court for the Northern District of Illinois certified for immediate appeal pursuant to 28 U.S.C. § 1292(b), (c)(1) on November 6, 1992. U.S. Philips Corporation and North American Philips Corporation (Philips) filed a

response stating that they do not oppose the motion, but that they believe that the district court's orders are correct.

This case from the Illinois district court and a related case from a Florida district court have a long and complex procedural history. For purposes of this petition, only the following is pertinent. Philips sued Windmere Corporation and Izumi in a Florida district court in 1984 for, inter alia, patent infringement, inducement to infringe, and unfair competition under the Lanham Act. Windmere, but not Izumi, counterclaimed against Philips under the antitrust laws. After a jury trial, an appeal, a remand, another trial, and a second appeal, Philips and Windmere settled.[1] On July 31, 1992, this court granted Philips' and Windmere's joint motion to vacate the district court's judgment.

Meanwhile, in 1985 Philips sued Sears and Izumi in the Illinois district court for patent infringement, inducement, and unfair competition. Izumi counterclaimed under the antitrust laws.

The Illinois district court issued various orders over the years concerning whether Izumi was barred from pursuing its antitrust counterclaims in Illinois because it failed to file such a counterclaim in Florida and whether Philips was collaterally estopped from retrying the Lanham Act claims after the Federal Circuit vacated the Florida judgment. In the final analysis, the Illinois district court determined that Izumi was barred from now asserting an antitrust counterclaim and that Philips was not collaterally estopped from retrying the Lanham Act claims. The district court certified its orders and set forth the controlling questions of law:

> In the opinion of this court, these Orders granting Summary Judgment against Izumi's antitrust counterclaims involve questions of law as to which there are

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[1] Neither Windmere nor Izumi sought appellate review of the jury's $6,500 damages award for infringement.

substantial grounds for differences of opinion and an immediate appeal from such Order may materially advance the ultimate termination of the present litigation. The specific issues are whether Izumi is barred from pursuing such counterclaims on the basis that such counterclaims were compulsory counterclaims in a previously filed action of *U.S. Philips Company et al. v. Windmere Corp., et al.* which could not be asserted in this action, and whether Izumi has standing to raise these particular antitrust counterclaims.

In the opinion of this Court, this Order reconsidering this Court's prior Summary Judgment against N.A. Philips' unfair competition claims and reinstating those claims involve a controlling question of law as to which there is a substantial ground for difference of opinion, and an immediate appeal from such an Order may materially advance the ultimate termination of this litigation. Such issue involves whether under the law of the 7th Circuit, plaintiff N.A. Phillips can be barred under collateral estoppel from again retrying the issue of trade dress infringement in view of the findings of the jury and the judgment of the Court in *U.S. Philips Company et al. v. Windmere Corp., et al,* where the final judgment of the Court was vacated predicated upon a settlement reached between Philips and Windmere.

We agree with the parties and the district court that the orders were appropriate for certification.[2] The questions of law are not relevant just to the particular facts of the case, but could be of importance to the bar in general. Further, as pointed out by Izumi and Sears, there are conflicting circuit views about these issues and uncertainty regarding Supreme Court precedent. Finally, re-

[2] A certified order must involve a controlling question of law as to which there is a substantial difference of opinion and an immediate appeal should materially advance the ultimate termination of the litigation. 28 U.S.C. § 1292(b).

viewing these interlocutory appeals will determine with finality which claims will proceed to trial and, thus, may materially advance the ultimate termination of the litigation.

Accordingly,

IT IS ORDERED THAT:

Izumi and Sears' petition for permission to appeal is granted.

FOR THE COURT

/s/ Alvin A. Schall
ALVIN A. SCHALL
Circuit Judge

Date Dec. 10, 1992

cc: Gary M. Hoffman, Esq.
Sheldon Karon, Esq.